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Press Release:
IMF Executive Board Completes First Review of Uruguay's Stand-By Arrangement
September 28, 2005

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Uruguay: Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding

September 14, 2005

The following item is a Letter of Intent of the government of Uruguay, which describes the policies that Uruguay intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Uruguay, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

September 14, 2005

Dear Mr. de Rato:

Since the approval of the three-year Stand-by Arrangement last June, the Uruguayan economy has continued to perform well, and macroeconomic and structural policies have been in line with the program. External financial markets have shown confidence in our policies, and we have successfully prefinanced an important part of our external financing needs for 2006. We have submitted to Congress our 2005–2009 budget, with primary surplus targets in line with our program.

We have made further progress in reducing vulnerabilities. Fiscal performance has been strong, with a higher-than-programmed primary surplus in the first half of the year. This outcome reflects both better revenue collections and lower non-interest spending. With a benign inflation outlook and a strengthening of the peso, we were able to bolster international reserves. The debt burden has been reduced substantially, and we are improving the structure of our debt.

Despite high and rising oil prices, economic activity remains robust, and we expect the economy to expand by 6 percent this year. Exports have continued to increase at higher-than-expected rates, and most indicators suggest solid growth. To sustain the growth performance into the medium term, we are embarking in a variety of measures to improve Uruguay's investment climate, including the conduct of a formalized dialogue with representatives from all key economic sectors.

In the attached supplement to the memorandum of economic and financial policies of May 24, 2005 (SMEFP), we update the set of economic policies that, we believe, will ensure the continuing success of our program. In connection with this, we request: (i) completion of the first review under the Stand-By Arrangement and purchase of SDR 30.65 million; and (ii) modification of the structural performance criterion on tax reform submission, of the NDA targets for end-September and end-December 2005, and of the adjustors for the NIR and NFPS debt performance criteria.

The second review is expected to be completed by December 2005, at which time we will further our structural reform agenda for 2006/07. As usual, we will maintain a close policy dialogue with the Fund and stand ready to take additional measures as appropriate to ensure the achievement of the program's objectives.

Sincerely,

/s/	/s/
Walter Cancela	Danilo Astori
President	Minister of Economy and Finance
Central Bank of Uruguay	Oriental Republic of Uruguay

Attachments:
Supplementary Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. This memorandum reviews the implementation of our economic and financial program supported by the SBA and lays out our policies for the rest of 2005. It supplements the Memorandum of Economic and Financial Policies (MEFP) of May 24, 2005.

A. Recent Developments and Performance under the Program

2. Developments under the program have been favorable. All monetary and structural performance criteria and benchmarks have been met. Fiscal performance through June was in line with the program objectives. Final data on noninterest expenditure of the general government, and preliminary data on the primary balance of the combined public sector and the NFPS debt stock, as specified in the attached TMU, suggest that these performance criteria were observed. We will provide final data on the primary balance of the combined public sector and the NFPS debt stock before the Executive Board meeting.

3. Leading indicators for the second quarter suggest robust growth, and the 6 percent growth objective for the year is within reach. Inflation has declined to below the central bank's (BCU) target range. The peso has strengthened significantly since the start of the year, indicative of growing demand for money and investor confidence. With a benign inflation outlook and appreciation pressures on the peso, the BCU conducted foreign exchange purchases in May and June, which were partially sterilized. In line with an increase of its commitment to the inflation target, and a lower emphasis on the monetary instrument, the BCU raised its base money target range by about 4 percent, while maintaining the inflation target range for June 2006 at 5–7 percent.

4. Fiscal performance has been strong, with a higher-than-programmed primary surplus in the first half of the year. This outcome reflects both better revenue collections and lower non-interest spending. The social emergency program (SEP) has now started to assist those in greatest need, including through direct income transfers, free preventive health care, and a temporary employment program. To further safeguard our fiscal targets, we have established quarterly revenue targets (floors) at the social security bank (BPS).

B. Macroeconomic Policies

5. We remain fully committed to the medium-term fiscal framework set out in our letter of May 24, 2005. The 2005 fiscal targets are well within reach, and the five-year expenditure plan submitted to Congress in August is consistent with the medium-term framework. The plan includes a comprehensive medium-term macroeconomic framework and explicit revenue and fiscal deficit targets for the period 2005–09, aiming at a primary surplus of 3.7 percent of GDP in 2006 and 4 percent of GDP in subsequent years. The plan entails agreement with public sector employees that allows for a gradual recovery of wages in real terms not exceeding GDP growth, and contingent on fiscal objectives being achieved. In addition, it includes additional wage allocations to priority sectors, including health and education, reaching 0.4 percent of GDP by 2009.

6. While our revenue goals for 2006 and over the medium-term are ambitious, we will closely monitor the evolution of actual revenues and have identified contingency measures for prompt adoption to ensure meeting the fiscal objectives. We reiterate our commitment to save any revenues exceeding program projections in 2005, maintain expenditure levels within program limits, and adjust public tariffs in a timely manner consistent with cost developments.

7. Reflecting the recent moderate easing of the monetary policy stance, we propose to increase the indicative target for base money for 2005 by about 4 percent, as shown in Table 1. We are monitoring carefully the inflation outlook, and will continue to timely adjust monetary policy to ensure achieving the program objectives.

C. Structural Reforms

Attracting private investment

8. We attach great importance to creating an attractive environment for private investment, which should be the main engine of growth and social progress in Uruguay. Our strategy is three-pronged: (i) firmly entrench macroeconomic stability; (ii) strengthen the legal, institutional, and financing environment for private investment: and (iii) ensure continued social peace and equitable labor relations, as a basis for productive enterprise.

9. President Vázquez launched in May a high level commission to discuss and agree on a wide agenda which includes, among others, reforms for improving the investment climate. The commission (i) is led by the Ministry of Finance and the Ministry of Labor and Social Security and is composed by representatives of all key sectors of the business community and labor unions; (ii) will build on important reforms, most of them already described in our letter of May 24, 2005, and identified by the IDB and the World Bank; and (iii) will publish its proposed reform agenda with a timetable by March 2006 (new structural benchmark). In the meantime, we are pursuing several near term priority reforms. We simplified tax and social security registration through the establishment of one-stop windows, and submitted legislation to Congress restricting anticompetitive practices. We will also submit to Congress by June 2006 a modernized bankruptcy legislation (new structural benchmark), and expect approval by end-2006.

10. We are considering public-private partnerships (PPPs) to help close the investment gap and improve efficiency of public enterprises. We will coordinate closely with the Fund to ensure that any potential investment is properly reflected in the fiscal accounts, including its actual and contingent costs, and consistent with the program’s fiscal objectives.

Fiscal reforms

11. **Tax reform.** We are advancing in the preparation of draft legislation on a comprehensive tax reform, including a new personal income tax, revamping the corporate income tax, and eliminating tax exemptions and subsidies. We are looking forward to the

suggestions from an FAD mission later this year. While we expect the bill to be ready by end-2005, with Congress in recess until mid-February 2006, we now propose submission by end-February 2006, for implementation by June 2006. The reform is expected to result in higher revenues starting in 2007. However, we are committed not to reduce the burden of indirect taxes until the revenue gains from the reform materialize, ensuring that the revenue goals in the medium-term budgets are met.

12. **Revenue administration.** We have begun to implement reforms, based in part on the recommendations of a recent FAD/World Bank technical assistance (TA) mission. Regarding the DGI (domestic tax administration), the Ministry of Economy and Finance and the DGI will sign a memorandum of understanding agreeing on quantifiable targets and indicators for 2006 on tax collections, audit coverage, tax services, and information systems (new benchmark for end-December 2005). We will also strengthen the auditing and collection functions of the social security bank (BPS). In addition, by August 2006 we will finalize the design of a comprehensive plan to transform the customs authority (DNA) into a modern customs service (new structural benchmark). As part of the plan, we will introduce risk-based controls and setup simplified procedures based on the existing information technology systems.

13. **Budget process.** We will intensify work to improve budgetary management during 2006. We will request Fund TA to assist in preparing an organic financial management legal framework and improving budget classification and coverage.

14. **Pension reform.** We remain committed to reducing the fiscal burden of the pension system, starting with implementation of the reform of the fund for the police by end-November, 2005. Reforms for the pension funds of the military and the banking sector are envisaged for 2006. In the case of the general public plan, our efforts have already resulted in increased contributions, and we expect further increases by implementing recommendations by a recent Fund mission on tax administration. In addition, to improve the actuarial fairness of the general public plan, we are currently assessing recommendations by a recent World Bank mission and will formulate our reform agenda in 2006.

15. **Debt management.** Preparations for the creation of a debt management unit at the Ministry of Finance are well advanced, and its establishment is expected by year-end. This effort is assisted by the Fund and the IDB. In addition, we have started to work on the design of a debt management strategy to lengthen average maturity and reduce the share of foreign currency-denominated debt.

Monetary and financial system reforms

16. We are preparing legislation aimed at improving the operational framework of the financial system for submission to Congress by end-December (performance criterion). A new law on bank resolution will allow for resolution techniques that are less disruptive to the financial system than outright liquidation. The law will also clarify coverage and operations of the deposit insurance scheme, which was introduced by decree in March. In addition, we

are preparing legislation to strengthen financial sector supervision and to amend the central bank law to bolster BCU independence. We have requested Fund TA to study strategies for strengthening the BCU's financial position.

17. Regarding the public bank BROU, credit granting controls are being strengthened, there has not been politically-directed lending, and credit subsidies are not being granted. In line with our previous commitments, any credit subsidies would be made explicit in the budget. The trust managing BROU's nonperforming loans continues to service its debt to BROU; if the trust is unable to service the debt, the government will honor its guarantee of these notes.

18. The restructuring of the state housing bank, BHU, has not fully progressed in line with the plans developed in 2003. We therefore recognize the desirability of an updated restructuring strategy, which we intend to adopt before end-2005 (new structural PC). In the meantime, BHU will continue its practice of not accepting new deposits from the public except pre-savings schemes. The government will, if necessary, honor its guarantee of the note to BROU to assure its timely servicing.

19. We have signed a contract for the sale of NBC (the bank formed with the consolidated good assets from 3 banks) and expect the sale to be completed by year-end. Collection efforts by the asset manager for the liquidation funds for the bad assets is proceeding on schedule and semi-annual financial statements are being published and audited annually.

Financing Assurances and Program Monitoring

20. The government has been successful in funding itself on the domestic market as well as in placing bonds in international financial markets. As a result, the program's financing for 2005 is well in hand. We also remain strongly committed to the reforms supported by lending programs from the IDB and the World Bank, and expect timely disbursements in support of program implementation.

21. We request the following modifications to the performance criteria set out in the MEFP of May 24, 2005: We request modification of (i) the monetary targets noted in paragraph 7; (ii) the adjustors to the NFPS debt and NIR targets to better reflect the concept of pre-financing; and (iii) the structural PC on tax reform. We further request that an additional structural performance criterion on BHU for end-December be set, as well as structural benchmarks on growth-enhancing reforms (paragraph 9) and revenue administration (paragraph 12), as presented in Tables 1 and 2.

Table 1: Quantitative Performance Criteria and Indicative Targets under the 2005-08 Program 1/

	2004 Stock	PC	PC (adjusted	Actual	Margin (+)	2005 PC		2006 IT			2007 IT
	Dec. 31	June 30				Sept. 30	Dec. 31	March 30	June 30	Dec. 31	Dec. 31
A. Quantitative performance criteria											
	(In millions of Uruguayan pesos)										
1. Combined public sector primary balance (floor) 2/	...	5,471	5,372	6,489	**1,117** 4/	9,687	14,647	2,382	7,995	17,011	19,966
2. General government noninterest expenditure (ceiling) 2/	...	23,561	23,539	22,126	**1,413**	34,643	46,561	13,286	26,572	53,144	58,039
3. Net domestic assets of the BCU (ceiling) 2/	74,079	3,983	3,983	-302	**4,284**	4,572	-3,910	5,143	-1,612	-4,580	-13,369
	(In millions of U.S. dollars)										
4. Net international reserves of the BCU (floor) 2/	-2,218	-130	-130	18	**148**	-110	280	-226	50	241	580
5. Nonfinancial public sector gross debt (ceiling) 3/	12,189	12,510	12,517	12,368	**148** 4/	12,575	12,550	12,775	12,740	12,775	12,925
6. Accumulation of external payment arrears of the public sector (on a continuous basis) 2/	0	0	0	0	**0**	0	0	0	0	0	0
B. Indicative targets											
	(In millions of Uruguayan pesos)										
7. Combined public sector overall balance (floor) 2/	...	-5,086	-5,086	-2,708	**2,378**	-7,459	-7,072	-3,204	-3,176	-5,332	-3,338
8. Monetary base (ceiling) 2/	15,648	557	557	1,070	**-513**	1,673	3,468	-824	-294	1,770	1,914
9. Floating debt of the central government (ceiling)	3,081	3,081	3,081	2,567	**514**	3,081	3,081	...	...	...	...

PC= performance criterion; IT=Indicative target.

Sources: Ministry of Economy and Finance; and Central Bank of Uruguay.

1/ As defined in the Technical Memorandum of Understanding.
2/ Cumulative changes from end-December of the previous calendar year.
3/ All maturities.
4/ Preliminary.

Table 2. Uruguay: Structural Conditionality under the June 2005-June 2006 Program 1/

Area	Structural Conditionality	Date	Status
A. Structural performance criteria			
Fiscal	Submit to congress a five-year spending plan, complemented with revenue projections and deficit targets consistent with the program's fiscal targets.	August 31, 2005	Observed.
Fiscal	Have in place a five-year spending plan, complemented with revenue projections and deficit targets consistent with the program's fiscal targets.	February 28, 2006	
Pension	Begin to implement reform of the pension fund for the police.	November 30, 2005	
Tax reform	Submit to congress a comprehensive tax reform as described in paragraph 7 of the MEFP.	February 28, 2006	
Tax reform	Begin to implement the comprehensive tax reform.	June 30, 2006	
Central Bank	Submit simultaneously three laws to congress to: (i) give appropriate autonomy to the central bank (as described in paragraph 12 of the MEFP); (ii) strengthen the regulation of the financial system (as described in paragraph 13 of the MEFP); and (iii) provide a suitable bank resolution framework (as described in paragraph 14 of the MEFP).	December 31, 2005	
Central Bank	Begin to implement these laws.	June 30, 2006	
BROU & BHU	Government to ensure timely service of BHU note and BROU fiduciary notes to BROU in accordance with the current payment schedules.	Continuous	
BHU	Adopt action plan to address the financial situation of BHU consistent with minimizing systemic risks and contingent fiscal costs.	December 31, 2005	
B. Structural benchmarks			
Fiscal	Establish quarterly revenue collection targets (floors) at the social security bank (BPS).	June 30, 2005	Observed.
Tax administration	Sign a memorandum of understanding between the Ministry of Finance and the DGI agreeing on quantitative targets and indicators for 2006 on tax collections, audit coverage, tax services, and information systems.	December 31, 2005	
Tax administration	Finalize the design of a comprehensive reform plan for the customs agency (including establishing collection targets consistent with the program).	August 31, 2006	
Debt management	Create a debt management unit at the Ministry of Finance.	December 31, 2005	
Growth	Publish agenda of growth-enhancing reforms (including timetable for implementation) prepared by the business environment commission.	March 31, 2006	
Growth	Submit to Congress bankruptcy law (to include Chapter-11 type corporate restructuring).	June 30, 2006	
Financial sector	Sell shares of NBC in amounts that yield managerial control to the private sector.	June 30, 2006	

Sources: Ministry of Economy and Finance; and Central Bank of Uruguay.

TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum presents the definitions of the variables included in the performance criteria and indicative targets annexed to the Memorandum of Economic and Financial Policies.

1. **Cumulative floor on the overall balance of the combined public sector (indicative target).** The combined public sector comprises the non-financial public sector (NFPS) and the Central Bank (BCU). The NFPS comprises the central government,[1] the social security system (*Banco de Previsión Social, Caja Militar,* and *Caja Policial*), the local governments (*Intendencias*), the public enterprises (AFE, ANCAP, ANCO, ANP, ANTEL, INC, OSE, and UTE (including Salto Grande)). The below-the-line overall balance will be measured as the negative of the *sum* of: (a) the net financing of the NFPS[2] minus (b) the operating balance of the BCU.

(a) The net financing of the NFPS would include the *sum* of: (i) increase in net claims of the domestic financial system on the NFPS (excluding government bonds and treasury bills); (ii) the increase in the net amount of NFPS bonds and treasury bills held outside the NFPS (excluding any debt issued for the recapitalization of BCU and debt issued to finance the capitalization of the deposit insurance scheme up to a limit of US$20 million); plus (iii) external bank loans and external[3] supplier credits to the NFPS; plus (iv) the net increase in liabilities arising from the forward sale of NFPS assets; plus (v) the increase in net non-bank loans[4]; *minus* (vi) the net increase of NFPS financial assets held by the NFPS outside the domestic financial system (including the loan component of the deposit insurance scheme); plus (vii) gross revenues from the sale of public assets (net of associated fees and commissions); plus (viii) all upfront payments related to future concessions

[1] This includes the funds managed directly in the ministries (*Fondos de Libre Disponibilidad*).

[2] Excluding any cash outlays related to government guarantees (principle plus interest) on the BHU and BROU's fiduciary trusts notes that are called; and the final outcome of the arbitration with the former shareholders of Banco Comercial.

[3] Based on the residency principle.

[4] Nonbank loans are defined in accordance with point No. 9 (a) (i) of the Fund's Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 6230-(79/140, August 3, 1979), as amended in 2000, but exclude those instruments listed in paragraph 1 (a) (i), (ii), (iii) and (iv) of this memorandum, and cover loans of the central government and public enterprises only.

(including the sale of mobile phone licenses); plus (ix) recoveries of financial assistance provided to the banking system.

(b) The operating balance of the BCU is defined as interest earnings on gross international reserves, as defined below, and other earnings including those on other foreign and domestic assets minus operating expenses, commissions paid, and interest paid on domestic and foreign debt administered by the BCU.

- The floor on the overall balance of the combined public sector will be adjusted downward (upward) by the amount by which the actual social security contributions transferred to the private pension system exceeds (falls short of) the projected amounts in the program, specified in Schedule A. The downward adjustor will be capped at a maximum of Ur$250 million. This adjustor will be eliminated after December 31, 2005.

Schedule A
(In millions of Uruguay pesos, cumulative basis)

	Jun-05	Sep-05	Dec-05
Projected social security contributions	1,798	2,712	3,587

2. **Cumulative floor on the primary balance of the combined public sector.** The combined public sector primary balance will be calculated as the overall balance measured from below the line plus interest payments. Interest payments are defined to exclude commissions and fees.

- The floor on the overall balance of the combined public sector will be adjusted downward (upward) by the amount by which the actual social security contributions transferred to the private pension system exceeds (falls short of) the projected amounts in the program, specified in Schedule A. The downward adjustor will be capped at a maximum of Ur$250 million. This adjustor will be eliminated after December 31, 2005.

3. **Cumulative ceiling on general government expenditure** applies to total (current and capital) non-interest expenditure of the central administration and the social security system (BPS) as recorded in the accounting system at the time that checks are delivered, a bank transfer is made, or the BCU notifies the receipt of a payment order.[5]

[5] Expenditures by local governments are not included.

- The non-interest expenditure of BPS exclude benefit payments. The non-interest expenditure of the central administration includes *Fondos de Libre Disponibilidad* but excludes transfers to the social security system, automatic transfers to the private pension funds (AFAPs), and earmarked revenue as of December 31, 2004.

- The ceiling on general government expenditure will be adjusted downward for any expenses arising from pension adjustments which exceed the increase in the legal minimum adjustment. The ceiling on general government expenditure will be adjusted upward (downward) by the amount by which the actual revenues from the *Fondos de Libre Disponibildad* (FLD) exceeds (falls short of) the projected amounts in the program, specified in Schedule B. This adjustor will be eliminated after December 31, 2005.

Schedule B
(In millions of Uruguayan pesos, cumulative basis)

	Jun-05	Sep-05	Dec-05
Projected revenues from the FLD	3,044	4,664	6,277

4. **Cumulative ceiling on the monetary base (indicative target).** Money base is defined as the sum of (i) currency issue; (ii) nonremunerated and remunerated peso sight deposits of BROU, BHU, private banks, and other institutions defined below at the BCU; and (iii) call peso deposits of BROU, BHU, private banks, and other institutions at the BCU. Other institutions include pension funds (AFAPs), local governments, public enterprises, trust funds of the liquidated banks (FRPB), investment funds, offshore institutions (IFEs), insurance companies, exchange houses, stock brokers, and the nonfinancial private sector. The monetary base excludes central government and BPS peso deposits held at BROU subject to a 100 percent reserve requirement. The indicative target is defined as the cumulative change calculated using the monthly averages relative to the base month average.

5. **Cumulative floor on the net international reserves (NIR) of the BCU.** NIR is defined as the difference between the gross international reserves and BCU reserve liabilities. Gross international reserves include all foreign exchange assets that are claims on non-residents and that are in the direct effective control of the BCU and are readily available for such purposes of the BCU as intervention or direct financing of payment imbalances. Such assets may be in any of the following forms, provided that they meet the test of effective control and ready availability for use: currency, bank deposits in nonresident institutions and government securities and other bonds and notes issued by nonresidents (with a rating not below "A" in the classification of Fitch and IBCA and Standard and Poor's or "A2" in the classification of Moody's). In addition, holdings of SDRs or of monetary gold would be included under gross international reserves (provided they meet the test of effective control and ready availability of use) as would the reserve position in the IMF, and liquid foreign assets set aside for the use of the government.

(a) Excluded from gross international reserves are all foreign currency claims arising from off-balance sheet transactions (such as derivatives instruments), capital subscriptions to international financial institutions, any assets in nonconvertible currencies, claims on any nonresident Uruguay-owned institutions, or any amounts (in all components of assets, including gold) that have been pledged in a direct or contingent way.

(b) BCU reserve liabilities include (i) all foreign currency-denominated liabilities of the BCU with original maturity of one year or less to residents and nonresidents (excluding government deposits); (ii) all certificates of deposit used to constitute reserve requirements against bank deposits; (iii) the total use of Fund credit by Uruguay; and (iv) any net position on foreign exchange derivatives vis-à-vis the peso with either residents or nonresidents undertaken directly by the BCU or by other financial institutions on behalf of the BCU, as measured in items II.2 and III.4 of the IMF's Data Template on International Reserves and Foreign Currency Liquidity.

(c) For the purpose of the NIR calculation, (i) the gold holdings of the BCU will be valued at the accounting rate of US$42 per troy ounce; (ii) liabilities to the IMF will be valued at the rate of US$1.54784 per SDR; (iii) gains or losses from gold swaps and other operations will be excluded; and (iv) non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollars at the market exchange rates of the respective currencies as of December 30, 2004.

- The NIR floor will be adjusted upward by any "excess" net financing of the NFPS defined as the difference between the stock of debt of the NFPS, as defined in para. 7 but excluding central government foreign currency deposits in domestic commercial banks, and schedule C below, and which is not explained by the adjustments specified in para. 7, bullet 1 (i-v).

Schedule C
(In millions of US dollars)

	Dec-04	Sep-05	Dec-05
Stock of debt of the NFPS, excl. CG FX deposits in domestic commercial banks	12,316	12,715	12,690

6. **Cumulative ceiling on net domestic assets (NDA) of the BCU.** NDA is defined as the difference between end-of-period monetary base and net international reserves (NIR) of the BCU as defined in paragraphs 4 and 5 below. The flow of NIR will be valued at the accounting exchange rate of Ur$26.35 per US$1.

- The NDA ceiling will be adjusted downward by the Ur$ equivalent of any upward adjustment in the NIR target of the BCU.

7. **The overall nonfinancial public sector gross debt ceiling** refers to the outstanding stock of external debt[6] and domestic debt[7] measured on a *gross* basis[8] in domestic and foreign currency *owed or guaranteed by the NFPS*, valued in U.S. dollars at the accounting rates of Ur$26.35 per U.S. dollar, U.S. dollar 1.3637 per Euro, U.S. dollar 0.0097 per Yen, U.S. dollar 1.54784 per SDR, and Ur$1.4345 per UI. If the Ur$ to UI rate exceeds 1.5420 the UI debt will be valued at Ur$ 1.4345 plus the difference between the actual rate and Ur$1.5420. The debt ceiling will exclude (i) the government guaranteed BHU note (with outstanding obligations estimated at US$624 million at end-December 2004) and the government guaranteed notes issued by the fiduciary trusts associated with the transfer of BROU's nonperforming loans (with outstanding obligations estimated at US$429 million at end-December 2004); and (ii) net debt of the NFPS with the BCU. It will include the total stock of Fund credit outstanding to Uruguay.

- The NFPS debt ceiling will be adjusted (i) upward (downward) by revisions made to the actual nonfinancial public sector gross debt stock at end-2004; (ii) upward by a maximum of US$500 million for the amount of debt issued to recapitalize the BCU; (iii) upward by a maximum of US$150 million (downward) for the cumulative reduction (increase) in the net credit position of public enterprises with the BCU; (iv) upward by a maximum of US$150 million for the costs associated with the final outcome of the arbitration award to the former shareholders of Banco Comercial; (v) upward by a maximum of US$100 million for debt issued to finance below-the-line operations of public enterprises (such as recapitalization of ANCAP's subsidiary abroad); and (vi) upward by the amount that the unadjusted NIR floor is exceeded, up to the amount of the upward revision of the NIR target (up to a limit of US$500 million).

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[6] For the definition of external debt the term "debt" has the meaning set forth in point No. 9 of the Fund's Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 6230-(79/140, August 3, 1979), as amended in 2000), and the term "external" is defined on the residency principle. The suppliers' contracts of ANTEL with equipment providers Ericsson and NEC are expensed under goods and services as rental outlays and, therefore, excluded from the definition of nonfinancial public sector gross debt for program purposes.

[7] Domestic debt covers net claims of the domestic financial system on the NFPS; NFPS bonds and treasury bills held outside the NFPS and the domestic financial system; non-bank loans as defined in footnote 4; and lease arrangements of the central government and public enterprises, as defined in point No. 9 (a) (iii) of the Fund's Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 6230-(79/140, August 3, 1979), as amended in 2000.

[8] Debt outstanding with the domestic financial system (excluding BCU) will be measured net of gross deposits.

8. **External payments arrears of the public sector** are defined on the residency principle and relate to public sector debt with foreign creditors. This performance criterion is monitored on a continuous basis.

9. **Floating debt of the central government** is defined as expenditures from the general treasury account ("*Rentas Generales*" only) that are registered in the integrated information system (SIIF), and that have been authorized for execution and confirmed by the respective central accountants, and for which no checks for payment have yet been issued. Excluded are obligations for utilities, obligations related to subsidies, judgment debt and obligations falling under "*Inciso 24"* of the accounting plan of the *"Contaduria General de la Nacion" international organizations and other credit)*, and domestic suppliers' credits of the Ministry of Housing. The ceiling on floating debt will be adjusted upward (*downward*) by revisions made to the actual stock of floating debt at end-2004. This indicative target will apply through December 31, 2005; and afterwards—once approved in the 2006 budget—monitored by including the floating debt in the definition of the combined public sector overall balance measured from below the line, general government expenditure, and in the stock of the NFPS debt.

10. **Continuous performance criterion on the timely service of bank restructuring debt to BROU in accordance with the current payment schedule**. The bank restructuring debt to BROU includes the notes to BROU guaranteed by the government and issued by the BHU and the fiduciary trusts that own and manage the nonperforming loans formerly on the books of BROU. Timely service is defined as the payment of agreed principal and interest by the BHU, the trusts, or the government in accordance with the timetable and terms presented in Schedule D.

Schedule C. Scheduled Service of Bank Restructuring Debt to BROU
(In millions of U.S. dollars)

	BHU Note				Fiduciary Trusts 1/			
	Service			Balance 2/	Service			Balance 2/
	Principal	Interest 3/	Total		I	II	III	
2005 Q2	2.5	3.7	6.2	611.8	70.7	4.6	3.6	350.7
2005 Q3	2.5	3.7	6.2	605.7				
2005 Q4	2.5	3.6	6.2	599.5	82.2	5.3	8.9	254.2
2006 Q1	3.8	3.6	7.4	592.1				
2006 Q2	3.8	3.6	7.4	584.7	81.0	5.3	8.8	63.4
2006 Q3	3.8	3.6	7.4	577.3				
2006 Q4	3.8	3.5	7.3	569.9	8.1	0.3	5.8	0.0
2007 Q1	5.1	3.5	8.6	561.4				
2007 Q2	5.1	3.5	8.5	552.8				
2007 Q3	5.1	3.4	8.5	544.3				
2007 Q4	5.1	3.4	8.5	535.8				
2008 Q1	6.4	3.3	9.7	526.1				
2008 Q2	6.4	3.3	9.7	516.5				

1/ Fiduciary trusts that own and manage the debt formerly on the books of BROU.
2/ Estimated balance of outstanding principal and interest obligations.
3/ Estimate. The contractual floating interest rate depends on that for BROU deposits.